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SUBJECT: EGYPT LAUNCHES SINGLE REGULATOR FOR NON-BANKING FINANCIAL SECTOR

¶1. (U) Key Points

-- A new agency consolidating all non-bank financial supervisory duties started operation July 1.

-- The new Egyptian Financial Supervisory Authority merges three pre-existing regulatory agencies overseeing the mortgage, insurance and capital markets.

-- The merger, which USAID helped design, is intended to increase the transparency and efficiency of the financial sector and diversify and expand access to financial services.

¶2. (U) The newly established Egyptian Financial Supervisory Authority (EFSA) began operating July 1 and replaces the Capital Market Authority, the Egyptian Insurance Supervisory Authority, and the Mortgage Finance Authority. The EFSA, which the GOE has also at times called the General Authority of Financial Supervision (GAFS), is part of Egypt's ongoing economic reform program. The merger is expected to help consolidate and streamline regulation of all non-bank financial industries, with the intention of improving both supervision and enforcement and ultimately diversifying and modernizing Egypt's financial sector.

¶3. (U) In a statement, Minister of Investment Mahmoud Mohieldin said that the establishment of the new regulator is part of the comprehensive reform program that began in 2004 and has included tax and energy subsidy reductions and the privatization of several previously state-owned enterprises. EFSA, according to the Ministry of Investment, is intended to boost investment in Egypt through more efficient supervision of non-bank financial markets, including insurance, capital markets, mortgage finance, leasing, and improved investor rights protections. The Ministry also stated that its first priority will be to create a unified corporate governance code to replace the different regulations formerly used by the three separate sub-regulators.

¶4. (U) The new authority will be headed by Dr. Ziad Bahaa El-Din, a lawyer and widely respected former head of the General Authority of Free Zones and Investment, Egypt's investment promotion agency. Although the new regulatory authority began operations last week, the merger of the supervisory authorities will take place over a transitional period of several years, Mohieldin told the local press. The overall merger will take place in still imprecisely defined phases, beginning with the merger of basic supervisory activities and the creation of a "One Stop Shop" for servicing public inquiries and basic requests. The legal structure of the agency is still being formulated and is not expected to be finalized until the end of the transitional period. Two deputies and six board members will serve under the chairman, all appointed by the Prime Minister.

¶5. (U) EFSA is still working out a number of basic logistical issues. For instance, it has developed a website for the new agency, but is still creating an integrated information technology platform and devising an organizational structure, both with USAID

assistance. One of its most important current priorities is developing job descriptions and functions for new employees. Bahaa El-Din is in the process of finding appointments for a handful of top leadership positions within EFSA, and in six months is expected to begin hiring other employees. Employees at the three formerly separate regulatory agencies are still housed at their home agencies, but are expected to move to a new EFSA headquarters, still under construction, in three to four years.

¶6. (U) A number of experts and financial analysts have voiced optimism about the merger and consider it a step toward greater market efficiency. Amr Wahib, investment manager at Kaizen Financial Consulting, said that the change would enhance market transparency and have a positive effect on investment in general. However, some experts expressed concern about the difficulty of merging previously independent entities. Although the three previously separate financial regulatory agencies all operated under the Ministry of Investment, they were administered separately and neither cooperated nor communicated extensively with one another. Additionally, a recent presidential decree has given EFSA substantial independence. The agency will have a salary structure independent of the GOE and will report directly to the Minister of Investment rather than to the Ministry itself.

¶7. (U) Comment: Since one of the major obstacles to investment in Egypt is the country's underdeveloped financial sector, the merger of the three regulatory agencies is potentially another step in the right direction. It should facilitate Egypt's integration with the global financial system, boosting foreign capital inflows and stimulating the economy in the long-run. Although Egyptian banks' cautiousness may have helped insulate the country's financial sector from the global economic crisis, it has also stifled investment, particularly in small- to medium-sized firms, and hampered the

development of other financial instruments, such as mortgages. The new authority is expected to provide a more efficient framework for developing a wider variety of credit options for Egyptian firms, mortgages for potential homeowners, and other financial instruments.

¶8. (U) Comment Cont'd: While the USG has supported each of the three stand alone regulators over the past several years and they have improved significantly, each still has much room to improve. Clearer regulations, greater transparency, and stronger enforcement of existing laws will increase the credibility of the regulatory environment and gradually promote private initiative and financial innovation. Such a regulatory overhaul is a complicated process, so financial development and diversification will take place gradually. Likewise, there is no indication yet as to whether the new authority will seek to liberalize financial regulations rather than simply unify supervision and enforcement. If the GOE engages in another round of financial liberalization, this time with a focus on the non-bank financial sector, the development of EFSA puts it in a better position to do so simultaneously and uniformly, and hopefully more effectively. End Comment.

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